

Message Text

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ACTION ARA-10

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FOR RICHARD GRAHAM, ARA/ECA
DEPT PASS ALSO TO EXIM

E.O. 11652: N/A
TAGS: ECON, PA
SUBJ: MEDIUM AND LONG RUN PROSPECTS FOR PARAGUAYAN ECONOMY

1. PLEASE PASS FOLLOWING INFORMATION TO EXIMBANK OFFICIALS WHO RECENTLY VISITED PARAGUAY, TO SUPPLEMENT RECENT EMBASSY BRIEFING REGARDING IMPACT UPON PARAGUAYAN ECONOMY OF ITAIPU AND OTHER HYDROELECTRIC PROJECTS. WHILE COUNTRY WILL INDEED HAVE TO ABSORB LARGE NUMBER OF WORKERS INTO OTHER SECTORS, AND INFLOW OF CAPITAL AND FOREIGN RESERVES WILL DIMINISH WHEN PROJECTS ARE COMPLETED, THIS IS SO FAR IN THE FUTURE THAT THE ECONOMY, WHICH IS BASICALLY SOUND, WILL HAVE HAD TIME TO MAKE ADJUSTMENTS. WE EMPHASIZE THAT IT IS UNLIKELY THAT DAMS WILL SPUR VERY RAPID INDUSTRIALIZATION, BUT THAT THE HYDROELECTRIC SCHEMES AND THEIR SPINOFFS WILL PROVIDE EMPLOYMENT INTO THE NEXT CENTURY AND FOREIGN RESERVE EARNINGS FOR AN INDEFINITE PERIOD OF TIME AFTER THAT.

2. ITAIPU WILL BE FINISHED AROUND 1990. WE ESTIMATE THAT THE YACYRETA PROJECT WILL BE COMPLETED NO EARLIER THAN 1995, AND THAT CONSTRUCTION OF
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CORPUS WILL EXTEND AT LEAST UNTIL THE YEAR 2000. IN TERMS OF EMPLOYMENT, IT SHOULD BE NOTED THAT A SUPERIMPOSITION OF THE LABOR DEMAND CURVES FOR THE THREE PROJECTS PRODUCES A SINGLE CURVE DEMONSTRATING A RELATIVELY CONTINUOUS DEMAND FOR LABOR OVER THE NEXT QUARTER CENTURY AND THAT AT THE END THE WORKFORCE WILL BE REDUCED GRADUALLY

OVER SEVERAL YEARS. THE INFLOWS OF CAPITAL AND FOREIGN EXCHANGE RELATED TO THE THREE PROJECTS WILL ALSO CONTINUE OVER THIS LONG SPAN OF TIME, ALTHOUGH WILL LESS CONTINUITY.

3. IT IS ESTIMATED THAT AT ANY GIVEN TIME THE MAXIMUM NUMBER OF PARAGUAYANS EMPLOYED ON THE PROJECTS WILL BE 15 THOUSAND, LESS THAN 2 PERCENT OF THE PRESENT WORKFORCE. BY THE YEAR 2000 IT WILL BE AN EVEN SMALLER PERCENTAGE. ON THE FINANCIAL SIDE, AS EACH PROJECT COMES ON STREAM IT WILL BECOME A SOURCE OF FOREIGN RESERVE EARNINGS AND PARAGUAY WILL BECOME A MAJOR EXPORTER OF ELECTRICITY.

4. UPON COMPLETION OF ALL THREE PROJECTS THERE MAY WELL BE A RECESSIONARY IMPACT UPON THE ECONOMY AS 1 PERCENT OR SO OF THE WORKFORCE MUST SEEK NEW EMPLOYMENT AND FOREIGN RESERVE EARNINGS DIMINISH, BUT THERE ARE NO GROUNDS FOR ANTICIPATING A SEVERE DEPRESSION OR EVEN OF A RECESSION. MOREOVER, THE ECONOMY IS SOUND AND CONTINUES TO EXPERIENCE MODERATE REAL GROWTH. THERE IS NO WAY TO PROJECT ACCURATELY WHAT CONDITIONS WILL BE IN OTHER SECTORS OF THE ECONOMY IN THE FIRST QUARTER OF THE NEXT CENTURY, BUT THERE APPEARS TO BE A GOOD CHANCE THAT CONTINUED REAL GROWTH WILL ALLOW IT BOTH TO ABSORB THE DISPLACED LABOR AND TO PROVIDE OTHER SOURCES OF FOREIGN EXCHANGE EARNINGS.

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Disposition Approved on Date:
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